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Hilpert, Hanns Günther; Stanzel, Angela

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SWP Comment

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China – Winning the Pandemic... for Now

**The People's Republic Is Exuding Strength,
But Can They Keep It Up?**

Hanns Günther Hilpert and Angela Stanzel

Is it not ironic that the Coronavirus pandemic, which arguably began in a Wuhan animal market in late 2019, has accelerated China's rise? Indeed, early interim assessments show that Beijing's draconian, sometimes inhumane, disease control measures have proven highly successful. China's containment of Covid-19 domestically has enabled a return to normality and laid the foundation for a strong economic upswing. Party and state leaders are using these achievements for political advancement at home and abroad. China's effective crisis management – epidemiological, economic, and political – reveal that the country is winning this crisis in the end of 2020. Nonetheless, the sustainability of these economic and political successes is debatable.

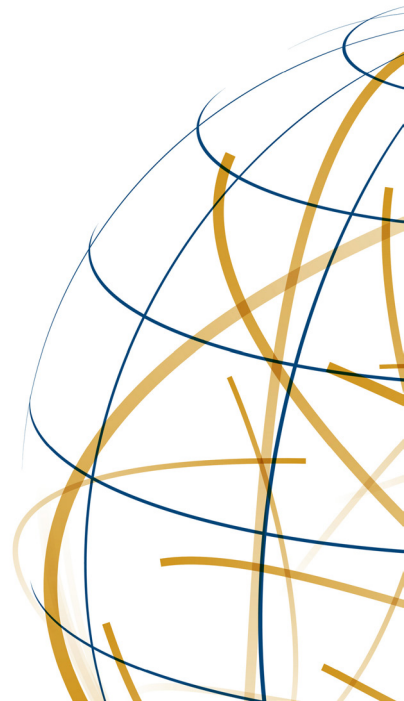
In Europe and across the Americas, Covid-19 infection rates rise significantly once again while economic trajectories face new downward trends, yet China seems to be exuding strength. Boasting supremely low infection rates and a noticeable increase in economic activity, the Chinese state and its ruling party are touting themselves, both domestically and abroad, as representatives of a system that is superior to that of the US and the West.

Successful Containment

It appears that China has left the pandemic behind. Such was apparent when observing the hundreds of millions of Chinese citizens

travelling the country during the work-free "golden week" in the beginning of October. A second wave of infection was prevented. According to Johns Hopkins University, China reported only 2,779 new Coronavirus cases and 41 deaths in December. Since the beginning of the pandemic, 96,246 people in the country – out of a population of 1.4 billion – have contracted the virus, and 4,787 have died from it (as of 5 January 2021). The figures have fallen drastically, even if the criteria used by the government to calculate them lacks transparency and should therefore be scrutinised.

Among the measures employed to combat the Coronavirus is the incessant "tracking" of citizens by means of a health app that everyone must have installed on their



smartphone. The app allows the government to trace chains of infection, monitor quarantine obligations and thus control the spread of the virus. Other tools are also being used. The government utilizes digital as well as physical methods to apply massive restrictions on people's freedom of movement when deemed necessary. When travelling within the country, for example, citizens are obliged to quarantine for 14 days at assigned locations that are under constant surveillance. In two cities where new infections were reported, the government also ordered mass testing: in mid-October, 9 million people in Qingdao were tested because of 12 confirmed Covid-19 cases; two weeks later, 4.7 million inhabitants of Kashgar were tested.

A V-shaped Economic Recovery

In China, where the pandemic began, the economy already collapsed in the first quarter of 2020, and by a spectacular 10.7 percent quarter over quarter at that. After successfully containing the infection, however, its gross domestic product (GDP) rose again, in a V-shape, in the second and third quarters — by 12.4 percent and 3.6 percent, respectively. According to forecasts put forward by the International Monetary Fund, China's economy will expand by 1.9 percent for the year and return to its old growth path in the medium term. In fact, the People's Republic is projected to be the only G20 member to exhibit a positive growth rate in 2020. China's share of the global gross national product will rise sharply, and the balance of power in the global economy will shift accordingly.

The main drivers of the current upswing were exports and public spending. China's government launched, and has partially implemented, an economic stimulus package amounting to around 4.6 percent of its GDP. With the aim of maintaining social (and political) stability, private households were offered tax and social security payment relief, and unemployment benefits were extended. As has often been the case

in moments of economic turmoil, the Chinese state financed investments in infrastructure, this time mainly in the health and digital sectors, through increases in its borrowing. While most foreign competitors suffered from bottlenecks due to lockdowns, Chinese exports benefited from the country's ability to deliver.

Instrumentalisation of Propaganda

When state and party leader Xi Jinping visited the provincial capital of Wuhan, the epicentre of the Coronavirus outbreak, on 10 March 2020, Beijing believed that the "victory" of the Chinese Communist Party (CCP) over the virus had already been achieved. Once again, according to the tenor of the widespread Covid-19 propaganda, China's socialist system had proven itself superior to Western democracies, especially the US.

The real winner of the pandemic, however, is Xi himself. Media in the country spread the "chronicles of Xi's leadership in China's fight against the virus", aptly illustrating that the CCP had been assigned a subordinate role within the greater public consciousness. Xi, in contrast, was able to use the crisis to centralise ruling structures and to further consolidate his own position of power. This is particularly relevant in view of the country's preparations for the 20th Party Congress, which will take place in 2022. The 19th Party Congress in 2017 already reaffirmed the party's commitment to centralism and to Xi's absolute claim to power. It did not, however, reveal any plans for Xi's descent from leadership of the party or the state. His recent gains underline impressions that he is positioning himself for the post-2022 era.

In the realm of foreign policy, China is using the Covid-19 crisis to strengthen its relations with other states through "mask diplomacy". Among other activities, this involves aid deliveries of protective medical equipment abroad. Beijing is also trying to find a vaccine for the virus. To this end,

Chinese vaccines are also being tested abroad in return for promises of priority access to the vaccine when it is developed. China's health diplomacy is staged for publicity and presents the country as the "saviour of the world". In a speech on 8 September 2020, Xi said, "China has helped save the lives of tens of millions of people around the world with its practical actions."

Political Strength at Home – Increasing Scepticism Abroad

The measures taken by the CCP to contain the Coronavirus have been met with approval by the majority of the Chinese population. The mass testing, for example, is free for all citizens, and the mass surveillance actually seems to be offering many a sense of security. There is also support for the government's view that the Chinese system is superior. According to a poll by the YouGov-Cambridge Globalism Project, 88 percent of Chinese respondents were convinced of their government's leadership in the Covid-19 crisis. Even if the pandemic has not yet been completely overcome within the country, as the mass tests show, the narrative of victory over the virus carries weight among the population. Trust in the government has grown.

Nonetheless, there is a considerable discrepancy between the perceptions of the Chinese population and the perceptions of those abroad. In a Pew Research Center survey carried out across 14 industrialised nations, 61 percent of respondents thought that China handled the virus poorly. Moreover, an average of 78 percent of respondents questioned Xi Jinping's ability to do the right thing when it came to global issues. This damage to Xi's image is primarily due to China's behaviour throughout the pandemic. Although massive propaganda campaigns proved successful domestically, they appear to have been counterproductive in terms of furthering the country's foreign policy, especially in relation to industrialised nations. In countries throughout Africa, Asia and Latin America on the

other hand, the Chinese narrative may have achieved greater success in catching on.

The reasons for growing scepticism toward China in the West are probably not only to be found in its handling of the Covid-19 crisis. Human rights violations in Xinjiang and Tibet are being viewed with an increasingly critical eye, as is the situation in Hong Kong. The demonstratively confrontational behaviour of Chinese diplomats (following "wolf warrior diplomacy") also plays a major role, as does Beijing's more robust foreign policy in the South China Sea and its approach towards neighbouring states such as Taiwan and India. Finally, the rising Sino-American conflict has sharpened the view that security challenges are emanating from China.

Ambitious Development Plans – Problematic Implementation

Due to the pandemic-related dip in growth, China will just fall short of its self-imposed target of doubling its national income between 2011 and 2020. However, all other long-term development plans remain on course. By 2025, China plans to be the world leader in ten value-added industrial sectors. By 2035, the country aims to double its national income yet again, while also setting the standards for global technology. And in 2049 – one hundred years after the foundation of the People's Republic – China hopes not only to be modern, strong and prosperous, but also to assume its position as the leading industrial nation. In order to stay on course, the recently adopted Five-Year Plan strikes remarkable new chords. Changes to China's orientation are no longer to be simply benchmarked by achieving certain quantitative growth targets, but are instead to follow qualitative guidelines. For example, the process of technological innovation is to gain such depth and breadth as to decrease China's dependency on foreign countries. The new guideline of "dual circulation", which will consist of domestic and foreign trade, aims

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SWP

Stiftung Wissenschaft und Politik

German Institute for International and Security Affairs

Ludwigkirchplatz 3–4
10719 Berlin

Telephone +49 30 880 07-0

Fax +49 30 880 07-100

www.swp-berlin.org

swp@swp-berlin.org

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to elevate domestic demand to a level that constitutes it as the engine of growth.

However, it is not clear how these guidelines differ from aspirations, which China has pursued (in vain) for 15 years, to balance China's economic growth. Over the course of the pandemic, the already limited progress in China's desired macroeconomic rebalancing has vanished into thin air. The share of private consumption in aggregate demand remains at a historically, uniquely low level of less than 40 percent. Mirroring this, China's gross fixed capital formation is far too high; it is inefficient, a drain on resources and the cause of growing internal debt. China's economic growth, driven by investments and exports, is therefore unsustainable, to such an extent that declining economic growth rates, if not collapses, are inevitable in the medium term. Productivity growth and the number of people employed have been stagnating for several years. Internal debt has risen to 280 percent of GDP, and a growing number of state-owned enterprises are technically insolvent.

To avert a financial and debt crisis, China would need to make a macroeconomic turnaround. Such a change of course would require a redistribution of income in favour of labour and the rural population, noticeable improvements in public pensions and health care, and the rapid reduction of industrial and real estate overcapacity. Whether the party and the state are politically and ideologically capable of changing course is, however, questionable in view of the so far hesitant approach apparent in Chinese economic policy. Reforms are not the priority of the Xi administration, which has been in office since 2012, as it prefers to strengthen the CCP's claim to leadership. Accordingly, the national economy has made a comeback over the past decade, and market reforms have been scaled back.

Against this backdrop, and in the face of an increasingly confrontational environment within the global economy, China is not well positioned to meet the economic

and structural challenges that lie ahead. With declining economic growth and a budget spread thin, China will face difficulty in financing its increased spending on health, retiree pensions, and the environment and climate. It is hard to imagine how China's ambitious development plans can be realised in this context.

Conclusions for German Foreign and Security Policy

In view of the economic difficulties ahead, China's leadership is eager to capitalize on the opportunities arising from its current burst of strength. It is therefore to be expected that Beijing will act even more self-confident than it already does. Germany and the EU are also likely to feel the effects of this change, especially when the human rights situation in China or arbitrary acts by the Chinese authorities are brought to the table. This makes a strong and united EU stance vis-à-vis China all the more important. Germany should also continue its current restructuring of German-Chinese relations. This means that Germany must practically bring to bear the European strategy, according to which China is a cooperative partner and economic competitor, but also a systemic rival — especially with respect to its model of governance. This can only succeed in the European context as part of a larger restructuring of European-Chinese relations.

Dr Hanns Günther Hilpert is Head of the Asia Research Division at SWP.

Dr Angela Stanzel is an Associate in the Asia Research Division at SWP.